Q TECHNOLOGY (GROUP) COMPANY LIMITED
丘鈦科技（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1478)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2018 amounted to approximately RMB8,135,161,000, representing an increase of approximately 2.5% as compared with that of 2017. There were several main reasons for the low growth in revenue: (i) although the sales volume of camera modules increased significantly by approximately 53.0% year-on-year, such increase was mainly generated from the sale of low-pixel camera modules. Facing fierce market competition, the average selling price of camera module products dropped significantly by approximately 30.3%, resulting in an increase of approximately 6.7% only in sales revenue from camera modules; and (ii) although the sales volume of fingerprint recognition modules increased significantly by approximately 33.2% year-on-year, the selling price of coating fingerprint recognition modules had dropped substantially, and the proportion of optical under-glass fingerprint recognition modules which commenced bulk shipment in the second half of 2018 has yet to be improved. The average selling price of fingerprint recognition modules dropped significantly by approximately 32.2%, which caused the sales revenue of fingerprint recognition modules fell by approximately 9.7% year-on-year.

- Gross profit of the Group for the year ended 31 December 2018 was approximately RMB353,108,000, representing a decrease of approximately 60.0% as compared with that of 2017, while gross profit margin for the year ended 31 December 2018 was approximately 4.3% (2017: approximately 11.1%). The main reasons for the decrease in gross profit margin were that the Group made a considerable investment in fixed assets for camera modules capacity expansion and automation transformation and thus caused a substantial increase in depreciation. Although the sales volume of camera modules and fingerprint recognition modules increased significantly in the year 2018 compared to the previous year, it takes time in the product structural optimisation of camera modules. The proportion of camera modules with resolutions of 8 mega pixels and below has increased significantly as compared with that of the year 2017. At the same time, the selling price of coating fingerprint recognition modules had dropped substantially. Under fierce market competition, the added value of camera module and fingerprint recognition module products was decreased, resulting in a year-on-year drop in gross profit margin of camera module products and fingerprint recognition module products.

- Profit of the Group for the year ended 31 December 2018 was approximately RMB14,399,000, representing a decrease of approximately 96.7% as compared with that of 2017. The main reasons for the decline in profit were that (i) gross profit margin of camera modules and fingerprint recognition modules decreased substantially; (ii) the central parity rate of RMB against US dollar rose from 6.5342 at the end of 2017 to 6.8632 as at the end of 2018, representing a depreciation of RMB by more than 5%, thus further increased costs of US dollar-denominated materials and bank borrowings, and caused the Group to record exchange losses; and (iii) Newmax Technology Co., Ltd., an associated company of the Company, recorded a loss for the year ended 31 December 2018 and the Company's share of its loss exceeded that of 2017.

- Basic and diluted earnings per share for the year ended 31 December 2018 were approximately RMB0.013 and RMB0.013 respectively.

- The Board had not recommended the payment of a final dividend for the year ended 31 December 2018.

Looking ahead to 2019, despite the coexistence of opportunities and challenges in the market, under the macro environment of the continuing trend towards high-end oriented mobile terminals camera modules, the ever-improving and growing popularity of solutions for multi camera modules, under-glass fingerprint recognition modules and 3D module products, the ready-to-use camera modules in automotive field and smart home and the gradual commercialization of 5G, the Board is cautiously optimistic about the business development of camera modules in 2019 and will endeavour to achieve the following objectives:

1) Shipment of camera modules in 2019 will increase by not less than 30% comparing with that of the previous year, of which the proportion of shipment of camera modules with resolutions of 10 mega pixels and above will account for not less than 50%;

2) Shipment of under-glass fingerprint recognition modules in 2019 will account for not less than 40% of the shipment of fingerprint recognition modules;

3) With a constant demand from customers and the Group's business development, production capacity of camera modules will be gradually expanded to not more than 50 million units per month by the end of 2019.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Q Technology (Group) Company Limited (the "**Company**") announces the audited consolidated annual results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018 (the "**Year**") together with the relevant comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Revenue	2	**8,135,161**	7,938,958
Cost of sales		**(7,782,053)**	(7,056,225)
Gross profit		**353,108**	882,733
Other revenue	3	**133,113**	35,099
Other net loss	3	**(50,223)**	(23,931)
Selling and distribution expenses		**(18,562)**	(16,045)
Administrative and other operating expenses		**(81,201)**	(64,955)
Research and development expenses		**(266,198)**	(269,556)
Profit from operations		**70,037**	543,345
Finance costs	4(a)	**(44,146)**	(16,912)
Share of loss of an associate		**(24,561)**	(16,918)
Profit before taxation	4	**1,330**	509,515
Income tax	5	**13,069**	(73,238)
Profit for the year		**14,399**	436,277
Attributable to:			
Equity shareholders of the Company		**14,399**	436,277
Profit for the year		**14,399**	436,277
Earnings per share		***RMB Cents***	*RMB Cents*
Basic	6(a)	**1.3**	39.8
Diluted	6(b)	**1.3**	38.9

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2018
(Expressed in Renminbi)

	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**14,399**	436,277
Other comprehensive income for the year (after tax and reclassification adjustments):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of the financial statements of subsidiaries outside the Mainland China	**(23,667)**	(12,739)
Other comprehensive income for the year	**(23,667)**	(12,739)
Total comprehensive income for the year	**(9,268)**	423,538
Attributable to:		
Equity shareholders of the Company	**(9,268)**	423,538
Total comprehensive income for the year	**(9,268)**	423,538

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**1,888,524**	1,480,662
Interest in an associate		**229,407**	258,318
Lease prepayments		**51,790**	16,632
Intangible assets		**1,427**	1,154
Deferred tax assets		**21,985**	7,672
Prepayment for acquisition of non-current assets		**10,770**	176,666
Deposits		**7,050**	12,050
		2,210,953	1,953,154
Current assets			
Inventories		**703,818**	688,041
Trade and other receivables	*7*	**3,031,367**	2,035,045
Other financial assets		**–**	873,486
Derivative financial assets	*8*	**105,251**	7,073
Pledged bank deposits		**288,302**	78,469
Cash and cash equivalents		**99,920**	464,982
		4,228,658	4,147,096
Current liabilities			
Bank borrowings		**1,178,241**	1,078,119
Trade and other payables	*9*	**3,061,432**	2,830,117
Contract liabilities		**28,391**	–
Derivative financial liabilities	*8*	**201**	17,989
Current tax payable		**1,835**	8,033
		4,270,100	3,934,258
Net current (liabilities)/assets		**(41,442)**	212,838
Total assets less current liabilities		**2,169,511**	2,165,992
Non-current liabilities			
Deferred income		**65,648**	14,598
Deferred tax liabilities		**428**	5,737
		66,076	20,335
NET ASSETS		**2,103,435**	2,145,657
CAPITAL AND RESERVES			
Share Capital		**9,022**	8,895
Reserves		**2,094,413**	2,136,762
TOTAL EQUITY		**2,103,435**	2,145,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board (the "**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information of any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation and presentation

The consolidated financial statements for the year ended 31 December 2018 comprise the Company, its subsidiaries (together referred to as the "**Group**") and the Group's interest in an associate.

The financial statements are presented in Renminbi ("**RMB**"), rounded to the nearest thousand unless otherwise indicated as the Group's principal activities were carried out in the PRC. RMB is the functional currency for the Company's subsidiary established in the Mainland China. The functional currency of the Company and its subsidiaries outside the Mainland China is US dollars.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments and other financial assets are stated at their fair value.

As at 31 December 2018, the Group had net current liabilities of approximately RMB41,442,000. These consolidated financial statements have been prepared on a going concern basis as the Board based on: (i) the Group has entered into agreements with several banks and obtained banking facilities totalling approximately RMB2,601,888,000. As at 31 December 2018, un-utilised banking facilities amounted to approximately RMB1,271,229,000; (ii) during the year ended 31 December 2018, the Group reported a net profit of approximately RMB14,399,000.

In addition, based on the cash flow forecast of the Group for the year ending 31 December 2019, the Board considered that the Group is able to obtain adequate liquidity to finance the working capital and capital expenditure requirements of the Group for the twelve months ending 31 December 2019. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable and that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

(i) IFRS 9, Financial instruments

IFRS 9 replaces IAS 39, Financial instruments: *recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. Based on the assessment by the Group, there is no significant cumulative effect of the initial application of IFRS 9 at 1 January 2018 in accordance with the transition requirement. Comparative information continues to be reported under IAS 39.

There is no impact of transition to IFRS 9 on retained earnings and reserves at 1 January 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table and the accompanying notes explain the original measurement categories for each class of the Group's financial assets under IAS 39 and new measurement categories under IFRS 9. There is no re-measurement for the adoption of IFRS 9.

	Note	*Original classification under IAS 39*	*New classification under IFRS 9*	*Carrying amount at 31 December 2017 under IAS 39 RMB'000*	*Carrying amount at 1 January 2018 under IFRS 9 RMB'000*
Financial assets					
Deposits	*(1)*	Loans and receivables	Amortised cost	12,050	12,050
Trade and other receivables	*(2)*	Loans and receivables	Amortised cost	2,035,045	2,035,045
Other financial assets	*(3)*	Available-for-sale financial assets	FVPL	873,486	873,486
Derivative financial assets	*(4)*	Financial assets measured at FVPL	FVPL	7,073	7,073
Pledged bank deposits	*(1)*	Loans and receivables	Amortised cost	78,469	78,469
Cash and cash equivalents	*(2)*	Loans and receivables	Amortised cost	464,982	464,982
Total financial assets				3,471,105	3,471,105

(1) Deposits and pledged bank deposits that were previously classified as loans and receivables are now classified as financial assets measured at amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows by payments of principal and interest on the principal amount outstanding.

(2) Trade and other receivables and cash and cash equivalents that were previously classified as loans and receivables are now classified as financial assets measured at amortised cost. The Group intends to hold the financial assets to maturity to collect contractual cash flows.

(3) Other financial assets that were previously classified as available-for-sale financial assets are now classified as financial assets measured at FVPL.

(4) Derivative financial assets that were previously classified as financial assets measured at FVPL are now continue to be classified as financial assets measured at FVPL.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. *Credit losses*

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, deposits and pledged bank deposits).

The Group has concluded that there would be no material impact for the initial application of the new impairment requirements.

(ii) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group's business model is straight forward and its contracts with customers for the sale of goods include only single performance obligation. The Group has concluded that revenue from sale should be recognised at the point in time when a customer obtains control. The adoption of IFRS 15 does not have a significant impact on the Group's revenue recognition.

Under IFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The initial application of IFRS 15 recognised the opening balance of contract liabilities of approximately RMB24,099,000 at 1 January 2018. Comparative information is not restated.

2 REVENUE AND SEGMENTAL REPORTING

The principal activities of the Group are manufacturing and sales of camera modules and fingerprint recognition modules for mobile phones and other mobile communication terminals. Revenue represents the sales value of goods sold, excludes VAT and is after deduction of any trade discounts.

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified reportable segments as follows:

– Design, manufacture and sales of camera modules

– Design, manufacture and sales of fingerprint recognition modules

No operating segments have been aggregated to form the reportable segments of the Group.

	Camera modules *RMB'000*	Fingerprint recognition modules *RMB'000*	Subtotal of reportable segments *RMB'000*	Others *RMB'000*	Total *RMB'000*
2018					
Revenue	6,272,686	1,832,022	8,104,708	30,453	8,135,161
Cost of sales	(5,959,798)	(1,798,026)	(7,757,824)	(24,229)	(7,782,053)
Gross profit	312,888	33,996	346,884	6,224	353,108
2017					
Revenue	5,895,723	2,035,063	7,930,786	8,172	7,938,958
Cost of sales	(5,194,011)	(1,860,587)	(7,054,598)	(1,627)	(7,056,225)
Gross profit	701,712	174,476	876,188	6,545	882,733

Others mainly represent revenue from sales of waste materials.

Segment profit represents the gross profit earned by each segment without allocation of expenses and other income and profit for the year. This is the measure reported to the most senior executive management of the Group for the purposes of resource allocation and assessment of segment performance.

The Group does not allocate specific assets or liabilities to the operating segments as the most senior executive management does not use the information to measure the performance of the segments.

The Group's revenue by geographical location is determined by the locations of operations of the contracting parties.

	2018 ***RMB'000***	2017 *RMB'000*
Revenue		
PRC (including Hong Kong)	**8,129,902**	7,933,516
Overseas	**5,259**	5,442
	8,135,161	7,938,958

The Group had three (2017: three) customers with whom transactions had exceeded 10% of the Group's revenue for the year ended 31 December 2018. The amount of sales to these customers amounted to approximately RMB5,862,835,000 (2017: approximately RMB5,463,529,000) for the year ended 31 December 2018.

3 OTHER REVENUE AND OTHER NET LOSS

	2018	2017
	RMB'000	*RMB'000*
Other revenue		
Government grants *(Note)*	**103,908**	16,659
Interest income	**29,058**	18,377
Others	**147**	63
	133,113	35,099

Note: Government grants were obtained from several local government authorities as a recognition of the Group's contribution towards the local economic development, of which the entitlement was unconditional and under the discretion of the relevant authorities.

	2018	2017
	RMB'000	*RMB'000*
Other net loss		
Net foreign exchange (loss)/gain	**(44,613)**	41,918
Loss on disposal of property, plant and equipment	**(15,687)**	(383)
Net realised and unrealised loss on foreign exchange option contracts	**(2,341)**	(47,911)
Net realised and unrealised gain/(loss) on foreign currency forward contracts	**12,418**	(17,555)
	(50,223)	(23,931)

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		2018 *RMB'000*	2017 *RMB'000*
(a)	**Finance costs**		
	Interest expenses	**44,146**	16,912
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	**15,326**	10,270
	Salaries, wages and other benefits	**603,600**	446,894
	Equity settled share-based payment expenses	**4,075**	6,704
		623,001	463,868
(c)	**Other items**		
	Amortisation		
	– lease prepayments	**1,080**	416
	– intangible assets	**175**	161
	Depreciation	**234,486**	135,228
	Auditors' remuneration		
	– Audit and review services for the Group	**2,123**	2,047
	– Audit services for subsidiaries	**168**	123
	Operating lease charges in respect of properties	**13,528**	9,020
	Research and development costs *(Note (i))*	**266,198**	269,556
	Impairment losses recognised/(reversed) on trade and other receivables	**182**	(9,555)
	Cost of inventories *(Note (ii))*	**7,909,358**	7,220,335

Notes:

(i) Research and development costs include staff costs of employees in the design, research and development department of approximately RMB81,472,000 for the year ended 31 December 2018 (2017: approximately RMB66,104,000), which are included in the staff costs as disclosed in Note 4(b).

The criteria for the recognition of such costs as an asset are generally not met until late in the development state of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(ii) Cost of inventories includes approximately RMB696,778,000 (2017: approximately RMB478,530,000) for the year ended 31 December 2018 relating to staff costs, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in Note 4(b) for each of these types of expenses.

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2018 RMB'000	2017 RMB'000
Current tax		
PRC Corporate Income Tax	**2,333**	66,919
PRC Dividend Withholding Tax	**3,977**	4,495
Hong Kong Profits Tax	**–**	1,512
	6,310	72,926
Deferred tax		
Origination and reversal of temporary differences	**(19,379)**	312
	(13,069)	73,238

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**1,330**	509,515
Notional tax on profit before taxation, calculated at the rates applicable to the tax jurisdictions concerned	**10,719**	131,262
Tax effect of PRC preferential tax treatments *(Note (iii))*	**(7,077)**	(44,073)
Tax effect of additional deduction on research and development costs	**(17,795)**	(20,035)
Tax effect of non-deductible expenses	**1,059**	1,589
Under provision in prior years	**25**	–
Withholding tax on profit retained by PRC subsidiaries *(Note (iv))*	**–**	4,495
Actual tax expense	**(13,069)**	73,238

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) Kunshan Q Technology (Hong Kong) Limited ("Kunshan QT Hong Kong") is subject to Hong Kong Profits Tax at 16.5% in 2018 and 2017.

(iii) Effective from 1 January 2008, the PRC statutory income tax rate is 25%. Kunshan Q Technology Limited ("Kunshan QT China") was qualified as a High and New Technology Enterprise ("HNTE") in 2009, which entitled to a preferential income tax rate of 15% from the year 2009 to 2011 according to relevant regulations in the PRC Corporate Income Tax Law. Kunshan QT China successfully renewed the HNTE qualification on 21 May 2012, 6 July 2015 and 24 October 2018 respectively and continued to enjoy a preferential income tax rate of 15% for another three years commenced from 1 January 2018.

(iv) According to the PRC Corporate Income Tax Law and its related regulations, the Group is subject to a withholding tax at 10%, unless reduced by tax treaties or arrangements, for dividends distributed by a PRC enterprise to its immediate holding company outside the PRC for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. According to the China-HK Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of a PRC enterprise is entitled to a reduced withholding rate of 5%.

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB14,399,000 (2017: approximately RMB436,277,000) and the weighted average of 1,127,614,000 (2017: 1,095,479,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018	2017
	'000	*'000*
Issued ordinary share at 1 January	**1,115,597**	1,081,771
Effect of share options exercised	**12,017**	13,599
Shares issued for the Placement	**–**	109
Weighted average number of ordinary shares at 31 December	**1,127,614**	1,095,479

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB14,399,000 (2017: approximately RMB436,277,000) and the weighted average of ordinary shares of 1,138,491,000 shares (2017: 1,120,394,000) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2018	2017
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,127,614**	1,095,479
Effect of deemed issue of shares under the Company's share option schemes	**10,877**	24,915
Weighted average number of ordinary shares (diluted) at 31 December	**1,138,491**	1,120,394

7 TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables		
– third parties	**2,829,467**	1,761,433
– related parties	**4,242**	21,893
Bills receivable		
– third parties	**170,641**	232,346
Trade and bills receivables	**3,004,350**	2,015,672
Less: loss allowance	**(531)**	(349)
	3,003,819	2,015,323
Other deposits, prepayments and receivables	**27,548**	19,722
	3,031,367	2,035,045

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Bills receivable represented outstanding bank acceptance bills and commercial acceptance bills. As at 31 December 2018, bills receivable amounting to approximately RMB26,047,000 (2017: approximately RMB27,427,000) were pledged as security for bills payable (see Note 9(a)). Bills receivable are due in 3 to 6 months from the date of issue.

As at 31 December 2018, bills receivable amounting to Nil (2017: approximately RMB37,513,000) were pledged as security for bank borrowings.

As at 31 December 2018, trade receivables amounting to Nil (2017: approximately RMB128,704,000) and approximately RMB147,825,000 (2017: approximately RMB46,224,000) were pledged as security for bills payable (see Note 9(a)) and bank borrowings respectively.

(a) Ageing analysis

As of the end of the year, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within 1 month	**1,695,382**	1,495,748
More than 1 month but within 3 months	**1,249,786**	492,370
More than 3 months but within 6 months	**58,576**	27,161
More than 6 months but within 1 year	**75**	44
	3,003,819	2,015,323

Trade debtors and bills receivable are due within 30 to 90 days from the date of which invoice or bills receivable issued.

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movement in the allowance for doubtful debts during the year is as follows:

	2018 *RMB'000*	2017 *RMB'000*
At 1 January	**349**	9,904
Impairment loss recognised	**182**	–
Reversal of impairment loss recognised	**–**	(9,555)
At 31 December	**531**	349

8 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	At 31 December 2018		
	Notional amount	**Assets**	**Liabilities**
	RMB'000	***RMB'000***	***RMB'000***
Foreign currency derivative instruments			
– Forward contracts	**452,045**	**–**	**(201)**
– Option contracts	**1,153,361**	**105,251**	**–**
Total	**1,605,406**	**105,251**	**(201)**

	At 31 December 2017		
	Notional amount	Assets	Liabilities
	RMB'000	*RMB'000*	*RMB'000*
Foreign currency derivative instruments			
– Forward contracts	841,866	–	(17,555)
– Option contracts	3,677,645	7,073	(434)
Total	4,519,511	7,073	(17,989)

The Group entered into foreign currency option and foreign currency forward contracts with banks. As at 31 December 2018, the notional amount of outstanding contracts amounted to approximately USD233,915,000 (2017: approximately USD691,670,000). All these option and forward contracts are matured within one year.

The fair value of the foreign currency option contracts is measured using the Black-Scholes-Merton Model. Main parameters used in the model include the spot price of the foreign exchange rates as of the valuation date, strike rates, forward foreign exchange rates, implied volatilities of foreign exchange rates and the risk-free rates.

The fair value of foreign currency forward contracts takes into account the market interest rate and the estimated future pay-off of the forward contracts.

9 TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables and accruals		
– third parties	**2,290,395**	1,858,471
– related parties	**102,951**	24,334
Bills payable *(Note (a))*		
– third parties	**399,892**	770,356
Trade and bills payables *(Note (b))*	**2,793,238**	2,653,161
Accrued payroll	**62,134**	60,894
Foreign currency option premium	**110,538**	–
Other payables and accruals *(Note)*	**95,522**	116,062
	3,061,432	2,830,117

Note: As a result of the adoption of IFRS 15, advances received which is previously included in "Other payables and accruals" is included in contract liabilities as at 31 December 2018 (see Note 1(c)(ii)).

All of the trade and other payables as at 31 December 2018 are expected to be settled or recognised as income within one year or are repayable on demand.

(a) Bills payable analysed by type of security

	2018	2017
	RMB'000	*RMB'000*
Bills payable secured by		
– Bills receivable *(Note 7)*	**21,805**	27,427
– Pledged bank deposits	**70,445**	20,153
– Trade receivables *(Note 7)*	**–**	100,000
	92,250	147,580
Bills payable unsecured	**307,642**	622,776
	399,892	770,356

(b) An ageing analysis of the trade and bills payables based on the invoice date is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**2,366,602**	1,700,477
More than 3 months but within 6 months	**308,632**	695,397
More than 6 months but within 1 year	**16,217**	169,407
More than 1 year	**3,379**	11,422
	2,694,830	2,576,703

As at 31 December 2018, the accrued trade payables which represented the amounts with no invoice received by the end of the Year, amounted to approximately RMB98,408,000 (2017: approximately RMB76,458,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year, the global political and economic situation remained unstable. On one hand, international trade protectionism continued to heat up, and the mitigation prospect is uncertain. On the other hand, the impact of the US dollar interest rate hike and the start of the reduction of balance sheets by different countries or economic entities have not yet fully reflected. The risk of economic downturn is gradually expanding.

Under such a macroeconomic background, the PRC economy, despite its stable performance, was inevitably affected. According to the data released by National Bureau of Statistics of China on 21 January 2019, China's gross domestic products (GDP) recorded a year-on-year increase of 6.6% in 2018, dropped by 0.2 percentage points from that of 2017, representing the lowest growth rate in the past 28 years.

Under the tough operation environment, the development of China's smartphone brands has still performed well. With breakthroughs in product innovation and brand influence in both the domestic and overseas markets, China's smartphone brands seized a higher market share and saw increases in both product average selling price and sales volume. Based on the data released by an independent market research institute, despite the decline in total sales volume of global smartphones in the first three quarters of 2018, the top four China's smartphone brands recorded a year-on-year increase in global market share and also product unit price. Meanwhile, the demand for China's smartphone brands for photo-taking effects and privacy protection of smartphones as well as the consistent appearance of products facilitated the innovation of dual camera modules, triple camera modules, multi camera modules, 3D modules and optical under-glass fingerprint recognition modules, which further enhanced the significance of relevant products in smartphones and contributed to the relatively sound business performance of the Group under a severe peripheral environment.

Looking back to the Year, with the trust and support of our core customers and the relentless efforts of all of our employees, the Group's strategy of expanding sales scale was well realised, the products sales volume recorded a rapid growth, among which the sales volume of camera modules reached approximately 263.89 million units, representing an increase of approximately 53.0% as compared with approximately 172.45 million units of last year; while the sales volume of fingerprint recognition modules reached approximately 107.55 million units, representing an increase of approximately 33.2% as compared with that of last year. The rapid growth in product sales volume was mainly due to the following three reasons: (i) the Group determined the "expanding sales scale" as its core strategy for the Year in early 2018 with clear objectives; (ii) the customer structure of the Group has gradually improved, the Group is in a good cooperation with a newly big customer, the customer recognition and influence are significantly improved, and the market share was further secured; and (iii) the popularity of dual/multiple camera modules is increasing, the market demand for camera modules is still growing steadily, and some dual/multiple camera modules were purchased on a splitting basis, resulting in the increase in sales volume.

Looking back to the Year, the core strategy of the Group's vertical integration has continued to deepen and has made good progress. The Group's investment in Newmax Technology Co., Ltd. ("**Newmax Technology**") (a company listed on the Taipei Exchange in Taiwan, stock code: 3630) has initially demonstrated results, and close cooperation between both parties has gradually generated synergy and positive impact on the performance of Newmax Technology. According to the audited annual financial report of 2018 and other reports disclosed by Newmax Technology, the monthly revenue of Newmax Technology achieved a year-on-year increase of 100% or above from May 2018 to December 2018, and net loss attributable to shareholders for 2018 was significantly reduced by approximately 40.8% to a net loss of approximately NT$310,677,000 from a net loss of approximately NT$525,017,000 of 2017. The gross profit margin of Newmax Technology in 2018 was approximately –0.8%, representing a year-on-year improvement of approximately 26.8 percentage points. In terms of technology, the Group and Newmax Technology have realised comprehensive technical cooperation and resource integration in optical under-glass fingerprint recognition modules and 3D structured light modules, and thereby accelerated introduction of projects from a number of customers. In terms of cost control and customer resources, we will further enhance customer stickiness by serving customers with more cost-effective solutions by increasing procurement ratios and sharing resources. In the future, both the Group and Newmax Technology will display their respective advantages and complement each other to jointly promote customer development, capacity improvement, technical progress and services enhancement, and strive to achieve win-win results for customers, the Group and Newmax Technology.

Looking back to the Year, the sales revenue of the Group reached approximately RMB8,135,161,000, representing an increase of approximately 2.5% as compared with approximately RMB7,938,958,000 of last year. The growth in sales income was way below the growth in sales volume, which was mainly due to the rapid decline in the average selling price of overall products as a result of taking time in product mix optimisation. The average selling price of camera modules was approximately RMB23.86 during the Year, representing a decrease of approximately 30.3% as compared with approximately RMB34.22 of last year, which was mainly due to the following factors: (i) the Group's cooperation with a new customer was still at a preliminary stage, mainly supplied low-end camera modules with resolutions of 2 mega pixels to such customer and hence dragged down the overall product mix of camera modules; and (ii) the proportion of sales volume of camera module products with resolutions of 10 mega pixels and above in the sales volume of camera module products decreased by approximately 4.7 percentage points as compared with that of 2017. The average selling price of fingerprint recognition modules was approximately RMB17.10, representing a decrease of approximately 32.2% as compared with approximately RMB25.23 of last year. This was mainly due to that the the selling price of coating fingerprint recognition modules declined rapidly as a result of its maturing technique and the increasing fierce market competition, whilst the adoption of new products such as optical under-glass fingerprint recognition modules was still at preliminary stage and unable to offset the downward pressure on product average selling price, which resulted a drop in average selling price of the fingerprint recognition module products.

During the Year, the Group's gross profit margin was approximately 4.3%, representing a decrease of approximately 6.8 percentage points from approximately 11.1% of last year. Such a decrease in gross profit margin was mainly due to that: (i) the Group's cooperation with a new customer was still at a preliminary stage. The products supplied to such customer are mainly low-end camera modules with resolutions of 2 mega pixels, resulting an increase in the proportion of low-pixel camera modules with low added value, and the average selling price of camera module products fell, while at the same time, the investment in capacity expansion and automation equipment caused the increase in depreciation of fixed assets, labour and other costs, and thus affected the overall gross profit margin of camera module products; (ii) the sales price of coating fingerprint recognition modules dropped substantially, while the proportion of optical under-glass fingerprint recognition modules which commenced bulk shipment in the second half of 2018 has yet to improved, which affected the overall gross profit margin of the fingerprint recognition module products; and (iii) the central parity rate of RMB against US dollar rose from 6.5342 at the end of 2017 to 6.8632 as at the end of 2018, representing a depreciation of RMB by more than 5%. The increase in certain USD-denominated material cost could not be effectively passed on to customers.

During the Year, the proportion of the Group's products with resolutions of 10 mega pixels and above in sales volume of camera modules decreased by approximately 4.7 percentage points to approximately 43.5% (the proportion of the products with resolutions of 13 mega pixels and above in 2017: approximately 48.2%, starting from 2018, the mid-to-high end camera module products are divided into the category of 10 mega pixels and above). For sales volume of fingerprint recognition modules, coating fingerprint recognition modules accounted for approximately 72.0% (2017: approximately 75.0%), and fingerprint recognition modules adopting cover lens accounted for approximately 16.2% (2017: approximately 25.0) %), while the under-glass fingerprint recognition modules accounted for approximately 11.8% (2017: N/A).

During the Year, the Group continued to strengthen its research and development ("**R&D**") on camera modules, and unswervingly strived for new materials, new processes and new products. On one hand, the Group focused on cost-effective and more stable module miniaturization technology, while it had successfully made mass production of the front miniaturised module solution integrating Molding on Chip (MOC) and Fixed Focus (FF) lens motor integration solution in the first half of the Year, it also researched and developed the brand new miniaturization processes such as technology of Filter and Metal in Holder (FAMIH), and further reduced module size; independently developed auto-focus (AF) lens motor integration solution, and a number of integrated technologies with more compact structure and smaller volume, and achieved fruitful results to meet customers' needs in new designs like ultra-high screen ratio, water drop screen and perforated screen. On the other hand, taking the advantages of high-magnification optical zoom and super wide-angle field of view of standard SLR cameras as the benchmark, the Group enhanced the ability of small cameras in "seeing clearly" and "understanding" the world. During the Year, the Group mainly focused on the R&D of periscope camera modules with multi-fold optical zoom, for which it had achieved technological breakthroughs to overcome major difficulties such as the design and assembly of motors, prism and telephoto lens, and further marched toward mass production.

The Group has seized the development opportunities arising from the transformation of 2D to 3D in optical imaging and commenced its mass sale of the front 3D structure light modules to customers in the third quarter of the Year, becoming the first camera module manufacturer in mass production and sale of 3D structure light modules in China. At the same time, the Group also accelerated the development of the new generation of 3D modules such as time of flight (ToF) modules to cater for needs in internet of things (IoT) applications such as sweeping robots, unmanned supermarkets, unmanned aerial vehicle, virtual reality (VR), augmented reality (AR), mixed reality (MR), security monitoring and other related products, and thereby consolidate the Group's leading position in the 3D module technology and provide the highest quality products and experiences for customers. The Group believes that it is a long-term trend that the 3D modules will be gradually become the standard configuration for mid-to-high end mobile phones. Based on the current solid foundation of the Group in structured light solutions and ToF solutions, the application of 3D imaging technique of smartphones is expected to facilitate the Group in benefiting from the next round of product structure improvement cycle.

Looking back to the Year, the infinity display design had gradually become the standard configuration of flagship projects of smartphone brands. Driven by the strong demand of end consumers and under the favorable environment of lower production cost of display, the design was further popularized among medium-end mobile phones. The Group fully grasped the opportunities in the under-glass fingerprint recognition and successfully developed the second-generation optical under-glass fingerprint recognition modules through the cooperation with Newmax Technology and under-glass fingerprint recognition solutions suppliers. The Group has successively secured the qualification of a major supplier for important models of various major China's mobile phone brands and received high industry recognition, and is expected to maintain such technical advantages in next year.

Since 2017, the Group has continuously increased investment in automation to achieve production automation and intelligence. After the preparation and commissioning in the first half of the Year, the production efficiency and the first pass yield in the second half of the Year had gradually improved. Looking forward to the future, the Group will continue to invest in the projects of chip on board ("**COB**") process automation, testing automation and logistics automation, try to carry out digital smart factory infrastructure by building In Line smart manufacturing line, digital equipment management system and energy management system.

Generally speaking, affected by various factors such as increase in industry concentration of smartphone brands, cyclical extension of smartphones replacement, and industry reshuffle and integration of camera modules and fingerprint recognition modules, the competition in camera module and fingerprint recognition module industries was still very intense. The directors of the Company (the "**Directors**") believe that only when constantly and deeply promoting intelligent manufacturing, R&D of new technology and vertical integration, firmly propelling the strategies in platform, components as well as system integration, then the Group will be able to maintain its relatively long-term competitiveness and provide high-end and high quality products and quick response services for our general customers.

PROSPECTS

Experienced the challenging year of 2018, the Directors believe that the macroeconomic situation is still full of challenges in 2019. Both trade protectionism and geopolitical relations may cause a fluctuation in global economic development. On 21 January 2019, in Davos, Switzerland, the International Monetary Fund (IMF) announced that the world economic growth forecast for 2019 will be lowered to 3.5%, the lowest growth rate in the past three years. The Directors are well aware that the prospect of the intelligent mobile communication terminal industry remains highly uncertain under the macro-economic environment. The Directors believe that under the current situation, the Group should strive to consolidate its advantages in the industry and establish its technological advantages by promoting the R&D of new materials, new processes and new products, improve product structure by optimising customer structure, build the systematic ability of intelligent vision products by promoting vertical integration, and enhance the risk prevention capability by strengthening internal control management, thereby better cope with potential fluctuations of situation in 2019.

However, the Directors remain unswerving in continuously promoting the development of intelligent visual system products, and cautiously optimistic about the business development of the camera modules and fingerprint recognition modules in the coming year, and believe that:

(i) Camera modules will remain one of the end-consumers' most concerned smartphone components, which will lead to continuous improvement in product specifications of camera modules. The design of triple camera modules and multi camera modules will be the upgrading path of major specifications of mobile phone brands in 2019. Some medium-end mobile phones projects with dual/multi camera in one frame solutions may adopt the separable procurement model with the development of algorithm. However, no matter what plan will be adopted, the demand for high pixel camera modules will inevitably increase with the higher requirements on shooting effects. The potential market and the higher technical threshold will bring favorable conditions for the development of the Group.

(ii) The Group's customer mix has been significantly improved than the past since the Group has established comprehensive cooperative relations with all the top four China's mobile phone brands in terms of sales volume, which will effectively reduce the risks on high customer concentration. Although the Group is still at the preliminary stage regarding the cooperation with an individual core customer, however, it has been highly recognized by such customer. The Group will be committed to improving the penetration of related customer and optimizing the product mix supplied to such customer. The future business growth can be more stably based on the explicit long-term trend of the pursuit for image effects by the mobile terminal, which will facilitate the Group in giving better display through its accumulated reserves of capacity, technology, talents and capital.

(iii) The infinity display design gradually becomes the dominant trend of mobile phones, although traditional capacitive fingerprint recognition module products are facing a development pressure, under-glass fingerprint recognition modules which replace them can generate higher added-value. As the leader in the second-generation optical under-glass fingerprint recognition modules, the Group will continue to benefit from the upgrading specification. Currently, the under-glass fingerprint recognition modules of the Group have acquired supplier qualifications for various brand flagship phones of major branded manufacturers. The Group has fully mastered the trend in the design of new products and is expected to maintain the leadership in the upgrading and replacement of relevant products.

(iv) Camera modules are one of the most important human-machinery interactive interfaces during the IoT era. Major Chinese mobile phone brands have successively launched smartphones with 3D modules with different technologies and functions such as face recognition in 2018. Although 3D modules are currently used in mobile payment and screen unlocking with slow growth in penetration due to their limited application scenarios, the development of application softwares may help bring more application scenarios with the lower cost resulted from the maturity of the supply chain of 3D modules. The Group still believes that 3D modules will become one of important trends in the upgrading of the specifications of mobile phones in the future. As the first 3D structure light modules manufacture with mass production in China, the Group has accumulated abundant technical reserves and the ToF plans are also ready to provide customized module solutions applicable to different scenarios based on customer demands, which may become a new driver for sales growth and specification improvement in camera modules.

(v) It has become the common development goal of domestic and overseas vehicle brands to improve driving safety and the operation experience of users through Advanced Driver Assistance System ADAS, Surround View, In-cabin Monitoring and other intelligent driving systems, which will promote application increase and specification improvement of vehicle camera modules. In 2018, the Group successfully achieved mass production and sales of in-cabin monitoring camera modules and obtained precious experience. Meanwhile, the Group successfully obtained the Tier 2 supplier qualification of domestic vehicle brands and is expected to fully conduct the business in 2019.

The Group will adhere to the mission of "providing intelligent vision systematic products for intelligent mobile terminals" and strengthen its capacity development in three aspects, namely optical design, computing vision and system integration, continue to enhance the R&D of new products and new processes and improve its precision manufacturing capability, and proactively carry out marketing activities to enhance its customer relationship, aggressively expand overseas renowned smartphone branded customers and continuously enhance the core competitiveness of the Group. The Group will focus on developing high-end camera modules, multi camera modules, 3D modules, periscopic camera modules, under-glass fingerprint recognition modules and other high-end products, provide assistance to Newmax Technology, our associate, in the development of camera module lens, 3D module lens and under-glass fingerprint recognition module lens, with an effort to strengthen the technical cooperation and resource integration between camera modules and key components such as lens, at the same time striving to achieve a breakthrough in the application of camera modules in non-mobile-phone sector.

The Group will endeavour to achieve the following objectives in 2019: (i) shipment of camera modules in 2019 will increase by not less than 30% comparing with that of the previous year, of which the proportion of shipment of camera modules with resolutions of 10 mega pixels and above will account for not less than 50%; (ii) shipment of under-glass fingerprint recognition modules in 2019 will account for not less than 40% of the shipment of fingerprint recognition modules; and (iii) with a constant demand from customers and the Company's business development, production capacity of camera modules will be gradually expanded to not more than 50 million units per month by the end of 2019 and the production capacity structure is further adjusted to the direction of under-glass fingerprint recognition modules when the production capacity of fingerprint recognition modules remains basically unchanged.

The Directors are confident in leading the Group to embrace the challenges, and make further efforts to achieve good development and strive to create greater value for the shareholders of the Company (the "**Shareholders**").

AWARDS AND HONOURS

During the Year, the Group continued to adhere to our customer-oriented service strategies, always considered the provision of good personal experience for customers as our operation direction and devoted our best efforts to satisfy customers' needs in product R&D, sales delivery, after-sales service, product quality and technology innovation, and gained high recognition of the Group's products and services from the industry, local governments and our customers.

In February 2018, Kunshan Q Technology Limited ("**Kunshan QT China**"), a wholly-owned subsidiary of the Company, was awarded the "Top Ten Enterprises with Economies of Scale in 2016-2017" granted by the People's Government of Kunshan City;

In May 2018, Mr. He Ningning, the Chairman of the Company, was awarded the Friend of Kunshan "Twin Lotus Award" to appreciate his contribution towards the reform and opening-up of Kunshan and is one of the ten outstanding economic figures who got this honor;

In November 2018, Kunshan QT China received the award of "Hi-tech Benchmarking Enterprise" granted by the People's Government of Kunshan City;

In November 2018, Kunshan QT China won the "Best Quality Award" of 2018 granted by Xiaomi Communication Co., Ltd. (小米通訊技術有限公司), one of the most well-known global smartphone manufacturers;

In December 2018, Kunshan QT China won the "Global Best Partner Award" of 2018 granted by ZTE Corporation, one of the most well-known global smartphone manufacturers; and

In January 2019, Kunshan QT China was awarded the "Top Ten Intelligence Production Transformation Enterprise" and "Top Economies of Scale Production Enterprise" granted by the People's Government of Kunshan City.

FINANCIAL REVIEW

Revenue

For the Year, the revenue of the Group was approximately RMB8,135,161,000, representing an increase of approximately 2.5% as compared with approximately RMB7,938,958,000 in the year 2017. The increase in revenue was mainly attributable to the significant increase in the sales volume of camera module products by approximately 53.0% as compared with that of the year 2017 and the significant increase in the sales volume of fingerprint recognition module products by approximately 33.2% as compared with that of the year 2017 resulting from the Group's strategic expansion in its scale. However, due to the fact that the product structure optimisation takes time, the average selling price of camera module and fingerprint recognition module products decreased substantially year-on-year, resulting in that growth rate in revenue was less than the growth rate in sales volume of camera module and fingerprint recognition module products.

Cost of sales

For the Year, the cost of sales of the Group was approximately RMB7,782,053,000, representing an increase of approximately 10.3% as compared with approximately RMB7,056,225,000 in the year 2017. The increase in the cost of sales was mainly attributable to that: (i) the total investment in raw materials increased by approximately 6.8% to approximately RMB6,691,781,000 as compared with that of 2017; (ii) the increase in the total number and remuneration of the Group's employees, labour dispatchers and interns resulted in the increase of approximately 37.8% in labour costs to approximately RMB511,514,000 as compared with that of 2017; and (iii) the depreciation expenses arisen from the production plants and equipment as result of the investment in capacity expansion which increased significantly by 72.4% to approximately RMB185,264,000 as compared with RMB107,444,000 of 2017.

Gross profit and gross profit margin

For the Year, the gross profit of the Group was approximately RMB353,108,000 (2017: approximately RMB882,733,000), representing a decrease of approximately 60.0% as compared with that of 2017, while the gross profit margin was approximately 4.3% (2017: approximately 11.1%). The decrease in gross profit margin was mainly attributable to that: (i) the Group's cooperation with a new customer was still at a preliminary stage. The products supplied to such customer are mainly low-end camera modules with resolutions of 2 mega pixels, resulting an increase in the proportion of low-pixel camera modules with low added value, and the average selling price of camera module products fell, while at the same time, the investment in capacity expansion and automation equipment caused the increase in depreciation of fixed assets, labour and other costs, and thus affected the overall gross profit margin of camera module products; (ii) the sales price of coating fingerprint recognition modules dropped substantially, while the proportion of optical under-glass fingerprint recognition modules which commenced bulk shipment in the second half of 2018 has yet to improved, which affected the overall gross profit margin of the fingerprint recognition module products; and (iii) the central parity rate of RMB against US dollar rose from 6.5342 at the end of 2017 to 6.8632 as at the end of 2018, representing a depreciation of RMB by more than 5%. The increase in certain USD-denominated material cost could not be effectively passed on to customers.

Other revenue

For the Year, other revenue of the Group was approximately RMB133,113,000, representing an increase of approximately 279.3% as compared with approximately RMB35,099,000 in the year 2017. The increase in other revenue was primarily due to: subsidies or incentives received by the Group that were granted by local governments at different levels were approximately RMB103,908,000, representing an increase of approximately 523.7% as compared with approximately RMB16,659,000 of 2017.

Other net loss

For the Year, the Group had other net loss of approximately RMB50,223,000, representing an increase of approximately 109.9% as compared with other net loss of approximately RMB23,931,000 in 2017. Such other net loss was primarily attributable to: (i) net exchange loss of approximately RMB44,613,000 due to the depreciation in exchange rates of RMB against US dollar during the Year; (ii) a net realised and unrealised loss on foreign currency option contracts was approximately RMB2,341,000; (iii) loss on disposal of assets was approximately RMB15,687,000; and (iv) a net realised and unrealised gain on foreign currency forward contracts was approximately RMB12,418,000.

Selling and distribution expenses

For the Year, the selling and distribution expenses of the Group amounted to approximately RMB18,562,000, representing an increase of approximately 15.7% as compared with approximately RMB16,045,000 of 2017. The ratio of selling and distribution expenses in turnover was approximately 0.2%, which was at similar level of approximately 0.2% of 2017. The increase in selling and distribution expenses was mainly attributed to the increase of sales staff's total salaries as a result of the expansion in the sales scale and increase in number of staff, and increase in entertainment expenses in relation to the sales activities during the Year.

Administrative and other operating expenses

For the Year, total administrative and other operating expenses of the Group increased from approximately RMB64,955,000 of 2017 to approximately RMB81,201,000, representing a year-on-year increase of approximately 25.0%. The increase in administrative and other operating expenses was mainly attributable to the following factors: (i) an increase of approximately 49.3% in staff salaries and labour expenses from approximately RMB18,899,000 of last year to approximately RMB28,219,000 resulting from the business expansion during the Year; and (ii) reversal of provision for doubtful trade receivables of approximately RMB9,555,000 in the last year, and no such reversal was incurred in the Year.

R&D expenses

For the Year, total R&D expenses of the Group amounted to approximately RMB266,198,000, representing a decrease of approximately 1.2% as compared with approximately RMB269,556,000 of 2017. The R&D expenses for the Year was mainly utilised in the Group's continuous R&D investments in new products and new processes, so as to allow the Group to develop the products such as camera modules with higher pixels, dual camera modules with different functions and applications, camera modules with smaller size, 3D modules, camera modules applied in automotive and smart home areas, more miniature fingerprint recognition modules with higher definition and optical under-glass fingerprint recognition modules, as well as to optimise and enhance the standards of production automation.

Finance costs

For the Year, the finance costs of the Group was approximately RMB44,146,000, increased by approximately 161.0% from approximately RMB16,912,000 of 2017, which was primarily due to the combined effect of the year-on-year increase in the Group's daily average balance of bank borrowings as compared with that of 2017 and the increase in interest rate of USD borrowings.

Income tax expenses

For the Year, the income tax expenses of the Group was approximately RMB-13,069,000, while the income tax expenses of 2017 was approximately RMB73,238,000, which was mainly attributable to tax effect of additional deduction ratio on R&D costs increased from 50% in 2017 to 75% in 2018.

Profit for the Year

Based on the foregoing, the profit of the Group for the Year amounted to approximately RMB14,399,000 (2017: approximately RMB436,277,000), representing a decrease of approximately 96.7% as compared with that of 2017.

LIQUIDITY AND FINANCIAL RESOURCES

Bank borrowings

As at 31 December 2018, the Group's bank borrowings amounted to approximately RMB1,178,241,000, representing an increase of approximately 9.3% from approximately RMB1,078,119,000 as at 31 December 2017. The maturities of all of those bank borrowings are not more than 1 year.

As at 31 December 2018, the Group's bank borrowings were denominated in RMB and/or USD. The overview of the Group's cash flow for the Year and 2017 was set out as follows:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	**(172,505)**	2,221,513
Net cash generated from/(used in) investing activities	**386,521**	(2,118,977)
Net cash (used in)/generated from financing activities	**(584,005)**	311,626

As at 31 December 2018, the cash and cash equivalents of the Group amounted to approximately RMB99,920,000, representing a decrease of approximately RMB365,062,000 from approximately RMB464,982,000 as at 31 December 2017. The decrease in cash and cash equivalents was mainly due to net cash outflow from operating activities and financing activities.

Operating activities

For the Year, the Group's net cash outflow of operating activities amounted to approximately RMB172,505,000, while there was a net cash inflow of operating activities of approximately RMB2,221,513,000 in 2017. The Group's cash flow recorded a net outflow from its operating activities, which was primarily attributable to: (i) parts of customers of the Group made their payment due at the beginning of each month, which resulted in a balance of trade and other receivables of approximately RMB3,031,367,000 as at 31 December 2018, representing a substantial increase of approximately RMB996,322,000 from approximately RMB2,035,045,000 of the same time of last year. The turnover days of accounts receivable of the Group for the Year was approximately 113 days, representing an increase of approximately 9 days from approximately 104 days of last year; and the Group usually makes its payment due at the end of the previous month, which resulted in a balance of trade and other payables of RMB3,061,432,000, representing a slight increase of approximately RMB231,315,000 from approximately RMB2,830,117,000 of the same time of last year; and (ii) a decrease in gross profit margin of the Group for the Year.

Investment activities

The net cash inflow generated from the investment activities of the Group in the Year amounted to approximately RMB386,521,000, which was mainly due to: (i) the expenses for plant expansion and purchasing equipment amounted to approximately RMB493,496,000; and (ii) the net cash inflow of purchase and redemption of other financial assets of approximately RMB873,486,000.

Financing activities

The net cash outflow used in the financing activities of the Group during the Year amounted to approximately RMB584,005,000, which was mainly due to: (i) the inflow of bank borrowings of approximately RMB1,537,615,000 and the cash outflows for repaying bank borrowings of approximately RMB1,883,980,000; (ii) the payment of final dividend of year 2017 of approximately RMB91,622,000; and (iii) the subscription amount of RMB54,593,000 paid by employees was received for subscription of the ordinary shares of the Company upon their exercise of share options in accordance with the share option scheme of the Company.

Gearing ratio

As at 31 December 2018, the gearing ratio of the Group, which is defined as the balance of bank borrowings and related parties' loans divided by total equity at the end of the Year, was approximately 56.0%, representing an increase of approximately 5.8 percentage points as compared with approximately 50.2% as at 31 December 2017, which was mainly due to: (i) the balance of the Group's bank borrowings increased by approximately RMB100,122,000 as at 31 December 2018 as compared with that of the same time of last year; and (ii) the payment of the Group's final dividends of year 2017 of approximately RMB91,622,000 in the Year resulted in a decrease in its net assets of approximately RMB42,222,000 as at the end of the Year.

Treasury policies

The Group's treasury policy was disclosed in the prospectus of the Company dated 20 November 2014 (the "**Prospectus**"), and was amended by the risk management committee (the "**Risk Management Committee**") of the Company on 24 March 2016, the details of which were disclosed under the "Management Discussion and Analysis" section of the 2016 annual report. The Board, the Risk Management Committee of the Company and the staff at the relevant positions always remain alert to the performance and risk assessment of the wealth management products so as to ensure that the wealth management operation does not pose excessive risk to the principal amount. At the same time, the Company also pays close attention to the liquidity and debt asset position of the Group in order to ensure the sufficiency of its working capital and maintain the debt asset ratio at a reasonable level.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisitions or disposals of its subsidiaries, associates and joint ventures for the year ended 31 December 2018.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment for the year ended 31 December 2018.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2018, the assets pledged by the Group included bank deposits, trade receivables and bills receivables of approximately RMB462,174,000, which were used as guarantee for bank borrowings and bills payables.

EMPLOYEE POLICIES AND REMUNERATION

As at 31 December 2018, the Group had a total of employees 2,874 (excluding staff under labour service agreements and internship agreements) (as at 31 December 2017: 2,526). The Group is committed to providing all staff with fair working environment, providing newly recruited staff with induction training and job technical counseling to help them to adapt to job requirements quickly, providing all staff with clear job responsibilities guidelines and for employees at different positions with on-the-job training together with other training programmes to help improving their skills and knowledge, and strived to provide all staff with competitive remuneration packages. For the Year, the remuneration of the employees (including staff under labour service agreements and internship agreements) of the Group was approximately RMB623,001,000 (2017: approximately RMB463,868,000). Apart from basic salary, the package also includes performance bonus, medical insurance and provident fund (staff under labour service agreements and internship agreements are treated according to the laws and regulations of the PRC).

Meanwhile, the Company has granted a total of 60,228,000 share options to its staff on 26 October 2016, 9 June 2017 and 7 December 2018 respectively pursuant to a share option scheme (the "**Share Option Scheme**") adopted on 13 November 2014 (details of the Share Option Scheme are disclosed in sections D1 headed "Share Option Scheme" of Appendix IV "Statutory and General Information" of the Prospectus respectively. The Company granted 39,425,000 share options in total to 165 staff (including two executive Directors, Mr. Wang Jianqiang and Mr. Hu Sanmu) on 26 October 2016 in accordance with the Share Option Scheme, and grantees may apply to exercise the share options by phases from 1 April 2018 upon fulfilling certain conditions (please refer to the announcement of the Company dated 26 October 2016 for details), and the Company has accepted the applications from 151 staff (including two executive Directors, Mr. Wang Jianqiang and Mr. Hu Sanmu) to issue a total of 14,706,000 ordinary shares during the Year, at the exercise price of HK$4.13 per share and total consideration received was approximately HK$60,736,000; a total of 1,567,800 options granted on 26 October 2016 were waived as a result of the resignations of 15 staff during the Year. On 9 June 2017, the Company granted 8,083,000 share options in total to 48 staff (none of the grantees are Directors, chief executive or substantial shareholders of the Company or any of their respective associates) in accordance with the Share Option Scheme, and the grantees may apply to exercise the share options by phases from 1 April 2018 upon fulfilling certain conditions (please refer to the announcement of the Company dated 9 June 2017 for details), and the Company has accepted the applications from 25 staff to issue a total of 1,419,200 ordinary shares during the Year, at the exercise price of HK$6.22 per share and total consideration received was approximately HK$8,827,000; a total of 1,197,600 options and 1,645,000 options granted on 9 June 2017 were waived as a result of the resignations of 10 staff and personal reasons of 9 staff respectively during the Year. In addition, on 7 December 2018, the Company granted 12,720,000 share options in total to 83 staff (none of the grantees are Directors, chief executive or substantial shareholders of the Company or any of their respective associates) in accordance with the Share Option Scheme, and the grantees may apply to exercise the share options by phases from 1 April 2020 upon fulfilling certain conditions (please refer to the announcement of the Company dated 7 December 2018 for details), and no option granted on 7 December 2018 was exercised during the Year.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily due to certain receivables, payables, cash balances and loans that are denominated in foreign currencies other than RMB arising from the operating activities such as bank borrowings, product sales and purchase of raw materials. The Group is also exposed to currency risk from the exchange or translation of USD and Hong Kong Dollars into RMB. During the Year, the Group recorded an exchange loss of approximately RMB44,613,000 as the sales income of the Group was still mainly settled in RMB but various raw materials for production and some equipment for production were purchased from overseas and settled in USD, and depreciated more than 5.0% in the RMB against USD exchange rate for the Year. As affected by multiple factors such as politics, economic, and supply and demand, the trend of RMB against USD in the future is subject to great uncertainties. It is difficult to adjust the business mode of the Group in the short run. Therefore, the profit or loss of the Group may still be affected by exchange rate fluctuation in the future. The Company will, on one hand, strive to strengthen the expansion of overseas business continuously to increase USD income; on the other hand, the Group will coordinate actively with suppliers receiving settlement in USD to seek the consent of certain suppliers to purchase domestically or arrange settlement in RMB, so as to reduce the demand for USD. Meanwhile, the Group will enhance monitoring of the exchange rate fluctuation on a daily basis, adjust the proportion of USD deposits to total deposits balance and the proportion of USD loans to total loans balance from time to time with reference to the analysis of exchange rates fluctuation trend, fix the future foreign exchange costs by properly using currency derivative instruments such as foreign exchange forwards and options, and take into account of costs during the price quotation for purchase or sales, so as to strengthen the management of foreign exchange risks and strive to reduce foreign exchange loss. However, the Group is also clearly aware that there are many factors affecting exchange rates, and the mechanism to determine exchange rate is complicated and fickle, thus it is difficult to estimate its trend. Therefore, the profit or loss of the Group may still be affected by exchange rate fluctuation.

USE OF PROCEEDS FROM GLOBAL OFFERING

On 2 December 2014, the shares of the Company (the "**Shares**") were initially listed on the Main Board of the Stock Exchange by global offering. The net proceeds from the above global offering was approximately HK$658,000,000 (after deducting relevant listing expenses). As at 31 December 2018, the fund raised was fully utilised in accordance with the intended use of the global offering.

USE OF PROCEEDS FROM PLACING OF SHARES

On 12 December 2016, the Company completed the placing of 40,000,000 new ordinary shares of HK$0.01 each under a general mandate granted to the Directors by the Shareholder to two placees, namely Value Partners Hong Kong Limited and The People's Insurance Company (Group) of China Limited, who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons, at the placing price of HK$3.90 per placing share. The net proceeds from the above placing was approximately HK$154,428,000, after deducting the related placing commission, professional fees and all related expenses. As at 31 December 2018, the fund raised was fully utilised. Among the utilised net proceeds: (i) approximately HK$70,000,000 was utilised for capital expenses; (ii) approximately HK$70,000,000 was utilised for R&D activities; and (iii) approximately HK$14,428,000 was utilised for general working capital. The capital utilisation was consistent with the intended use of the net proceeds of the placing.

On 29 December 2017, the Company completed the placing of 20,000,000 new ordinary shares under a general mandate granted to the Directors by the Shareholders to not less than six placees, being professional, institutional and/or other investors, who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons, at the placing price of HK$10.80 per placing share. The net proceeds from the above placing was approximately HK$214,218,000, after deducting the related placing commission, professional fees and all related expenses. As at 31 December 2018, the fund raised was fully utilised. Among the utilised net proceeds: (i) approximately HK$171,374,000 was utilised for capital expenses; and (ii) approximately HK$42,844,000 was utilised for R&D activities. The capital utilisation was consistent with the intended use of the net proceeds of the placing.

DIVIDEND

The Board did not recommend the payment of any final dividend for the Year.

The Board recommended the payment of a final dividend for the year ended 31 December 2017 of RMB7.8 cents (equivalent to HK$9.6 cents) per share, and was paid in June 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the eligibility to attend the 2018 annual general meeting, the register of members of the Company will be closed from 21 May 2019 to 24 May 2019. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 20 May 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

ENVIRONMENTAL PROTECTION MANAGEMENT

The Group has strictly complied with the applicable environmental protection laws and policies in the jurisdictions where the respective members of the Group are located. During the Year, the Group had continued to revise, improve and implement a number of internal rules and regulations in relation to environmental protection management such as the implementation of Wastewater Management Regulations, Waste Gas Management Regulations and Greenhouse Gas Management Measures, and to further perfect the wastewater, waste gas and greenhouse gas treatment system in order to strengthen its management and control in production and domestic sewage so as to ensure that the wastewater discharge is in compliance with statutory requirements, and clarified the ranges, procedure and instrument of collecting the data of greenhouse gas for the effective management of greenhouse gas of the Group in the long run and prepared for reducing carbon emissions. As the same time, the Group had also amended and implemented certain regulations and measures including improving the Fire Safety Management Regulations and Emergency Plan, held fire drills with particular focus on strengthening of self-check of the fire control facilities and improving the fire prevention and control capability, and Kunshan QT China successfully obtained the compliance certificate interms of work safety granted by Administration of Work Safetyand Environmental Protection of Kunshan Hi-tech Industrial Development Park.

Particulars of the environmental protection management of the Company will be disclosed in the Environmental, Social and Governance Report set out in the 2018 annual report of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Directors have been aware and have confirmed that they had complied with the required standard for securities transactions by Directors set out in the Model Code during the Year.

CORPORATE GOVERNANCE

The Board is committed to maintaining a high standard of corporate governance, and protecting and enhancing Shareholders' value through good corporate governance. For the Year, the Company has fully complied with the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The roles of the Chairman and the Chief Executive Officer are performed by different individuals to enhance the respective roles' independence, accountability and responsibility.

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group, setting the Group's values and standards, formulating the business plans and strategies, deciding all significant financial and operational issues, developing, monitoring and reviewing the Group's corporate governance. The Board has established the audit committee (the "**Audit Committee**"), the nomination committee, the remuneration committee and the risk management committee, and all or the majority of members of the committees consist of independent non-executive directors. The respective terms of reference for such committees have been published on the respective websites of the Stock Exchange and the Company.

Particulars of the principal corporate governance practices adopted by the Company will be disclosed in the Corporate Governance Report set out in the 2018 annual report of the Company.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The Audit Committee comprises three members, namely Mr. Ng Sui Yin (chairman of Audit Committee), Mr. Ko Ping Keung and Mr. Chu Chia-Hsiang, all being independent non-executive directors. The Audit Committee had reviewed the annual results of the Company for the year ended 31 December 2018 with the Company's management.

EVENTS AFTER THE REPORTING YEAR

Save as disclosed in this announcement and/or other announcements of the Company, there were no other important events affecting the Group that had occurred after 31 December 2018 and up to the date of this announcement.

ANNUAL REPORT

The annual results announcement of the Company is published on the respective websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.qtechglobal.com). The annual report for the year 2018 will be available on the above websites and despatched to Shareholders in due course.

APPRECIATION

The Company would like to take this opportunity to express its sincere thanks and gratitude to the Shareholders and various parties for their continuous support as well as the Directors and its staff for their dedication and hard work.

By Order of the Board
Q Technology (Group) Company Limited
He Ningning
Chairman and Executive Director

Hong Kong, 25 March 2019

As at the date of this announcement, the Executive Directors are Mr. He Ningning (Chairman), Mr. Wang Jianqiang (Chief Executive Officer) and Mr. Hu Sanmu; and the Independent Non-executive Directors are Mr. Chu Chia-Hsiang, Mr. Ko Ping Keung and Mr. Ng Sui Yin.